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SUBJECT: DUNG QUAT INDUSTRIAL ZONE MAKES SUBSTANTIAL PROGRESS

¶1. Summary: The USD 2.8 billion Dung Quat refinery and oil port project in Quang Ngai Province has been widely criticized as uneconomic. However, it is well on its way to opening in 2009 and could become the anchor for developing a major heavy industrial zone. A Vinashin shipyard is close to completion at Dung Quat and a major Taiwanese steel plant has been announced. Quang Ngai is both poor and isolated but the province has a plentiful supply of labor and undeveloped land. Newly installed provincial leadership is business-focused and keen to use Dung Quat to drive investment and development. End Summary.

¶2. Consul General visited Quang Ngai Province and the Dung Quat industrial zone December 11. The Zone is just south of the Chu Lai industrial zone in Quang Nam Province and the old U.S. airbase at Chu Lai can be seen from Dung Quat. Mr. Dung Viet Hoang, PetroVietnam's Deputy Project Manager for the refinery, stated that construction began in March 2006 and is expected to be completed in 2009 at a total cost of USD 2.8 billion. The project is being funded by the GVN both directly from the budget and through domestic borrowing. French engineering firm Technip is the prime contractor. Stone and Webster of the U.S. serves as the owner's engineer (OE). Construction is about 25 percent complete in value terms with the foundations and seawater intake and pumping stations largely in place. Refinery components are under construction around the world and will be delivered by sea to the still under construction port. Once completed, crude oil will be delivered by tanker from Vietnam's offshore platforms to the south via an unloading buoy and refined product will be pumped 1.6 km to the new deepwater port. In a later phase, a container terminal will be added to the port as well.

¶3. The Dung Quat refinery project was on the drawing boards for over a decade before construction began last year. Vietnam's petroleum production and consumption is roughly in balance, but all crude is exported and all refined products imported. The decision to build Vietnam's first refinery in Quang Ngai Province was primarily political. The site is neither close to the offshore oil rigs nor to the market. Foreign investors, including from Russia, shied away from the project leading the GVN to decide to finance the development itself. A number of experts have claimed that oil refined at Dung Quat, a mid-sized plant by international standards, may be more expensive than imported product.

¶4. Whatever the economics of the refinery, the project is anchoring development of a heavy industrial zone. State-owned Vinashin is close to opening a new shipyard in the

zone, likely financed with the proceeds the GVN's 2005 750 million international bond sale, proceeds of which were turned over to the shipbuilding firm. Taiwan's Tycoons Steel Company has also been granted a license to build a steel mill. With both vacant land zoned for industry and a plentiful supply of labor available, Dung Quat will develop into an industrial center according to Provincial People's Committee Chairman Nguyen Xuan Hue. A wounded Viet Cong veteran, Hue has been in office since May 2006 and ran the province's Department of Planning and Investment before that. He came up through the ranks of the provincial sugar company, which he built and expanded into a diversified food and beverage group. Hue has a clear vision for his provinces development and an understanding of business that bodes well.

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